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TAGS: [ECON](#) [ETRD](#) [PREL](#) [KWBG](#) [KPAL](#) [IS](#) [EG](#)
SUBJECT: EGYPTIANS WELCOME PALESTINIAN TRADE, GAZA EXPORT
CORRIDOR

REF: A. 2006 CAIRO 6771
[B.](#) 2006 CAIRO 2593
[C.](#) TEL AVIV 846
[D.](#) JERUSALEM 862

CLASSIFIED BY DEPUTY CHIEF OF MISSION STUART JONES FOR
REASONS 1.5 (B) AND (D).

[1.](#) SUMMARY: (C) EGYPTIAN GOVERNMENT AND PRIVATE-SECTOR
CONTACTS SAY THEY WELCOME INCREASED TRADE WITH PALESTINIANS,
INCLUDING A TRADE CORRIDOR FOR GAZA EXPORTS THROUGH EGYPT.
MERCHANTS IN THE NORTH SINAI CAPITAL OF EL-ARISH ARE ALREADY
DOING SMALL-SCALE BUSINESS WITH PALESTINIANS WHO MANAGE TO
PASS THROUGH THE RAFAH CROSSING, DESPITE INFREQUENT OPENINGS
AND VIOLENCE IN GAZA. IN CAIRO, GOE OFFICIALS ARE
COORDINATING PLANS TO DEVELOP A PALESTINIAN EXPORT CORRIDOR
THROUGH SINAI. WHILE SMUGGLING OF WEAPONS, DRUGS AND CASH
THROUGH RAFAH HAS DOMINATED THE GOVERNMENT-TO-GOVERNMENT
AGENDA (SEPTELS), RETAIL BUSINESS AND GREY-MARKET TRADE IS
LAYING THE FOUNDATION FOR INCREASED ECONOMIC TIES, OFFERING A
RARE OPPORTUNITY FOR ENHANCED ISRAELI-PALESTINIAN-EGYPTIAN
COOPERATION. THE USG MAY WISH TO CONSIDER PUSHING FOR
IMPLEMENTATION OF GAZA EXPORTS THROUGH RAFAH AT THE UPCOMING
QUARTET MEETING. END SUMMARY.

LAWLESSNESS AND DISAFFECTION

[2.](#) (U) RED SEA TOURIST RESORTS IN SOUTHERN SINAI HAVE
DEVELOPED RAPIDLY IN THE TWO DECADES SINCE ISRAEL RETURNED
SINAI TO EGYPT UNDER THE CAMP DAVID ACCORDS. THE NORTH HAS
REMAINED RELATIVELY DESTITUTE, HOWEVER. YOUNG PEOPLE LEFT THE
AREA TO WORK ON FARMS IN THE NILE VALLEY, WHILE THE FEW
INDUSTRIES RECRUITED WORKERS FROM ELSEWHERE IN EGYPT.
BEDOUIN RESIDENTS OF THE REGION, WHO TRADITIONALLY IDENTIFY
MORE WITH THE TRIBES OF THE ARABIAN PENINSULA THAN WITH OTHER
EGYPTIANS, HAVE CONTINUED A GENERATIONS-LONG TRADITION OF
SMUGGLING. DISAFFECTION AND LAWLESSNESS CREATED A FERTILE
ENVIRONMENT FOR TERRORIST ATTACKS ON TOURIST RESORTS IN 2004,
2005 AND 2006 (REFS A AND B).

[3.](#) (SBU) EL-ARISH GOVERNOR AHMED ABDUL-HAMID MOHAMMED TOLD
VISITING ECONOFFS MAY 30 THAT THE YOUNG PEOPLE RESPONSIBLE
FOR THE VIOLENCE IN THE SINAI HAD STRAYED FROM TRADITIONAL
TRQAL AUTHORITY. HQADDED THAT SECURITY SERVICES HAVE
SOMETIMES BEEN MORE TOUGH THAN NECESSARY, A POSITION HE MADE
PUBLIC IN SUBSEQUENT MEDIA INTERVIEWS. HE IS NOW DISCUSSING
BEDOUIN CONCERNS WITH TRIBAL SHEIKHS. ACCORDING TO RECENT
PRESS ACCOUNTS, SINAI BEDOUIN HAVE STAGED PROTESTS AND MET
WITH THE GOVERNOR TO AIR GRIEVANCES INCLUDING A HEAVY-HANDED
SECURITY CRACKDOWN AND DETENTIONS BY MINISTRY OF INTERIOR
POLICE, A LACK OF ECONOMIC OPPORTUNITIES, AND ISRAEL'S
LONGTIME IMPRISONMENT OF TRIBAL MEMBERS.

ECONOMIC DEVELOPMENT

¶4. (SBU) MOHAMMED STRESSED THAT THE GOVERNMENT IS SEEKING TO INCREASE EMPLOYMENT OPPORTUNITIES, AND SOME INDICATIONS OF ECONOMIC GROWTH ARE EVIDENT IN NORTH SINAI. THE EL-ARISH PORT IS CURRENTLY UNDERGOING A USG \$10-MILLION UPGRADE. VACATION VILLAS ARE UNDER CONSTRUCTION, ROWS OF STOREFRONTS ARE OPEN FOR BUSINESS, AND LOCAL POLITICIANS ASSERT THAT THINGS ARE LOOKING UP OVERALL. FAYEZ ABOUL HARB, A PARLIAMENTARIAN AND BEDOUIN FROM THE LARGE EL-SAWARKA TRIBE, TOLD ECONOFFS THAT YOUNG PEOPLE ARE INCREASINGLY LIKELY TO STAY IN THE AREA TO WORK IN AGRICULTURE AND BUSINESS.

¶5. (U) AGRICULTURE -- INCLUDING FARMING, LIVESTOCK, AND FISHING -- ACCOUNTED FOR 35,000 JOBS IN NORTH SINAI IN 2006, WHILE MINERAL PRODUCTION SUCH AS MARBLE AND CEMENT ACCOUNTED FOR ANOTHER 6,000 JOBS, ACCORDING TO GOVERNORATE FIGURES. (NORTH SINAI HAS A POPULATION OF 340,000, ONLY ABOUT 0.5 PERCENT OF THE NATIONAL TOTAL.) AN ECONOFF WHO SPENT A TOUR WITH MULTINATIONAL FORCE AND OBSERVERS IN THE REGION EIGHT YEARS AGO NOTED SIGNIFICANTLY INCREASED ECONOMIC DEVELOPMENT AROUND THE MFO NORTH CAMP. AS ONE OF THE AREA'S LARGEST EMPLOYERS, MFO EMPLOYS OVER 400 EGYPTIANS FOR LOGISTICAL SUPPORT. (SECURITY CONCERNS AND SECURITY SERVICES MAINTAIN A TIGHT GRIP ON THE AREA. ECONOFFS TRAVERSED NORTH SINAI IN THE COMPANY OF AT LEAST THREE DIFFERENT SECURITY SERVICES BUT WERE UNABLE TO VISIT ONE FACTORY FOR LACK OF A PERMIT FROM A FOURTH, BORDER SECURITY.)

¶6. (SBU) OTHER LARGE EMPLOYERS INCLUDE AN OLIVE-OIL FACTORY OWNED BY THE EGYPTIAN MILITARY AND TWO CEMENT FACTORIES. HOSAM EL-MORSHIDY, OPERATIONS DIRECTOR FOR SINAI WHITE PORTLAND CEMENT CO., SAID THE FACTORY IS PLANNING TO INCREASE PRODUCTION AND RAISE EMPLOYMENT FROM 400 TO 600. MORSHIDY SAID THAT WHEN HE FIRST CAME FROM CAIRO TO WORK AT THE PLANT, EVEN HIS DRIVER WAS FROM THE NILE VALLEY, BUT NOW THE COMPANY IS RECRUITING HEAVILY AMONG LOCAL RESIDENTS. HASSAN RATEB, PRESIDENT OF THE SINAI INVESTORS ASSOCIATION AND OWNER OF THE FACTORY, RECENTLY OPENED A PRIVATE UNIVERSITY IN EL-ARISH, SINAI UNIVERSITY. MORSHIDY SAID THE CEMENT PLANT AND OTHER NORTH SINAI EMPLOYERS WOULD BE ABLE TO RECRUIT LOCAL GRADUATES OF THE UNIVERSITY FOR MANAGEMENT AND ENGINEERING JOBS.

¶7. (U) AN INCREASING NUMBER OF NORTH SINAI RESIDENTS ARE FINDING WORK OR STARTING THEIR OWN BUSINESSES WITH MICROFINANCE LOANS THROUGH THE USAID-FINANCED NORTH SINAI BUSINESSMENS ASSOCIATION. SINCE IT OPENED IN 2004, THE ASSOCIATION HAS ISSUED 12,500 INDIVIDUAL AND GROUP LOANS TOTALING OVER 13 MILLION EGYPTIAN POUNDS (USD 2.3 MILLION). WHILE SOME OF THE ENTREPRENEURS WORK ON THEIR OWN, SELLING FOR EXAMPLE HANDICRAFTS OR DATES, OTHERS SUCH AS EL-ARISH BUSINESSWOMAN FAWZEYA EL-EISAWAY GENERATE SIGNIFICANT EMPLOYMENT. EL-EISAWAY NOW EMPLOYS 40 TO 50 WOMEN -- UP FROM 10 TWO YEARS AGO -- TO EMBROIDER SHIRTS, DRESSES, AND HEAD SCARVES. EMPLOYMENT AT THE ASSOCIATION TO ADMINISTER THE LOANS HAS RISEN FROM 60 IN 2004 TO 195 NOW. LAST MONTH THE ASSOCIATION OPENED A BRANCH SERVING RAFAH AND SHEIKH ZUWAID, WHERE ENTREPRENEURS WILL BE ABLE TO PROFIT FROM RAFAH BORDER TRAFFIC, SAID EXECUTIVE MANAGER OSAMA EL-KASSAS.

TRADE WITH PALESTINIANS

¶8. (SBU) AMONG THE NORTH SINAI MERCHANTS ALREADY TRADING WITH PALESTINIANS THROUGH RAFAH IS SAID MASSOUD, WHO PRODUCES SHOES FOR THE LOCAL MARKET AS WELL AS FOR EXPORT TO GAZA AND SAUDI ARABIA. PALESTINIAN TRADERS BUY HIS SHOES WHOLESALE AND CARRY THEM THROUGH RAFAH FOR SALE IN GAZA, HE SAID.

¶9. (SBU) HOWEVER, COMMERCIAL EXPORTS FROM EGYPT THROUGH RAFAH VIOLATE THE EXISTING PALESTINIAN-ISRAELI CUSTOMS PROTOCOLS. THE PROTOCOL CURRENTLY REQUIRES ALL COMMERCIAL EXPORTS TO PASS THROUGH THE ISRAELI CROSSING POINT KEREM SHALOM, JUST SOUTH OF GAZA, WHICH HOWEVER IS NOT YET OPEN FOR COMMERCIAL GOODS. EU BORDER MONITORS HAVE COMPLAINED IN THE

PAST THAT THE GOE WAS NOT ADEQUATELY PREVENTING COMMERCIAL EXPORTS THROUGH RAFAH (REF C). IN ORDER TO ADDRESS SUCH CONCERNS, PALESTINIANS RETURNING TO GAZA CAN NOW CARRY ONLY THREE PIECES OF LUGGAGE, SAID ASHRAF EL-EWENY, AN EGYPTIAN BORDER OFFICIAL WITH THE MILITARY INTELLIGENCE BRANCH LAWIO (LIAISON WITH INTERNATIONAL ORGANIZATIONS). REGARDLESS, THE THOUSAND PALESTINIANS WHO PASS THROUGH THE CROSSING EACH DAY WHEN IT IS OPEN -- AN AVERAGE OF ONCE A WEEK IN RECENT MONTHS -- GENERATE WELCOME RETAIL BUSINESS FOR SINAI MERCHANTS, SAID BEDOUIN PARLIAMENTARIAN FAYEZ ABOUL HARB.

¶10. (U) LARGER-SCALE COMMERCIAL ACTIVITY COULD FOLLOW IMPLEMENTATION OF THE PROVISION OF THE NOVEMBER 2005 AGREEMENT ON ACCESS AND MOVEMENT (AMA) ALLOWING FOR GAZA EXPORTS THROUGH RAFAH. THE WORLD BANK ESTIMATED RECENTLY THAT A PALESTINIAN TRADE CORRIDOR IN SINAI WOULD OFFER PALESTINIANS DIRECT ACCESS TO LUCRATIVE GULF AND EUROPEAN MARKETS THROUGH THE SUEZ CANAL AND CAIRO AIRPORT WHILE PROMOTING ECONOMIC DEVELOPMENT IN SINAI.

¶11. (SBU) REPRESENTATIVES OF THE EGYPTIAN MFA, MINISTRY OF TRADE, CUSTOMS, AND OTHER AGENCIES HAVE MET WITH EUROPEAN COMMISSION REPRESENTATIVES IN CAIRO IN RECENT WEEKS TO DISCUSS CUSTOMS PROCEDURES AND REQUIREMENTS FOR EGYPTIAN RAFAH INFRASTRUCTURE IMPROVEMENTS. SEPARATELY, PALESTINIAN AUTHORITY CUSTOMS REPRESENTATIVES MET WITH COUNTERPARTS IN CAIRO ON JUNE 6. EU COLLEAGUES INFORM US THAT IN FEBRUARY, THE GOE REQUESTED FUNDING FOR THREE ITEMS: EXPLOSIVES DETECTION EQUIPMENT, PERSONAL X-RAY DETECTORS, AND CLOSED-CIRCUIT MONITORING EQUIPMENT FOR FENCES. HOWEVER, PROGRESS ON THE INITIATIVE APPEARED STALLED IN THE MAY MEETING OF THE COORDINATION AND EVALUATION COMMITTEE OF THE GOI, PALESTINIANS, AND EUROPEAN MONITORS (REF D).

COMMENT AND RECOMMENDATION

¶12. (C) SUGGESTIONS THAT THE EGYPTIANS OPPOSE GAZA EXPORTS THROUGH RAFAH (REF C) APPEAR UNFOUNDED; IN FACT THEY SAY THEY ARE EAGER FOR INCREASED TRADE OVER THE BORDER. LARGE-SCALE EXPORT OPERATIONS AT RAFAH MAY REQUIRE INFRASTRUCTURE DEVELOPMENT. BUT WE UNDERSTAND THE GOI AND PALESTINIANS ARE DISCUSSING A DEMONSTRATION SHIPMENT OF GAZA EXPORTS, WHICH HAS BEEN DELAYED BY INSTABIILTY IN GAZA. WE RECOMMEND THE USG CONSIDER ACTIVELY PROMOTING THIS INITIATIVE AT THE QUARTET MEETING THIS MONTH AS A REALISTIC, IMMEDIATELY ACHIEVABLE, AND TANGIBLE DEMONSTRATION OF THE SHARED ECONOMIC INTERESTS OF THE AREA'S RESIDENTS.
RICCIARDONE